

Baker Market Update: Week in Preview

Lester Murray

Associate Partner

Financial Strategies Group

lester@gobaker.com

800.937.2257

The Baker Group

GoBaker.com

1601 NW Expressway

20th Floor

Oklahoma City, OK

800.937.2257



The FOMC will conduct its first meeting of the New Year this week but don't expect the tune to have changed much. The Committee's two-day meeting will wrap-up Wednesday afternoon with Chairman Powell's press conference providing the epilogue. There'll be no talk of rate changes, no talk of tapering asset purchases, and no talk of the Fed doing less of anything it's already doing.

This morning, we learned there was a little more economic activity going on across the nation last month when the Chicago Fed published its National Activity Index for December. That measure rose unexpectedly to a value of 0.52 against a pre-release estimate of 0.10. November's level of 0.27 was revised to 0.31. A little later today, the Dallas Fed is expected to announce that its Manufacturing Index rose to 12 in January from last month's value of 9.7. This afternoon, the Treasury will be selling \$60B Two-Year notes. If that sounds like a lot, it is, but that's just a warm-up for the Treasury; tomorrow it's selling \$61B Five-Year notes. It's only money.

But before those Five-Year notes come to market, the FHFA is expected to come to market with its House Price Index for November. It may show that while prices rose 0.8%, that was only about half of the prior month's growth rate. The Core-Logic Case-Shiller 20-city Home Price Index will be released at the same time probably showing that prices rose almost 1% in November with the year-over-year pace rising to 8.65% from 7.95%. Get 'em while they last!

How much longer can the resolve of consumers last? Investors may know more about that on Tuesday after the Conference Board issues its January report on Consumer Confidence. The value of that Index was 88.6 in December and, for some reason, analysts believe it improved to 89 this month. They must be stock market analysts who don't watch the news. Other analysts think the Richmond Fed's Manufacturing Index fell from 19 to 17 this month and we'll learn more about that on Tuesday, too.

Wednesday starts early with a preliminary report from the Census Bureau telling us that, in December, Durable Goods Orders rose 1% and that would match November's growth rate. Non-Defense Capital Goods Orders are expected to show a half per-cent December rise.

On Thursday, investors will find out who won the Q4 GDP betting pool when the Bureau of Economic Analysis issues its first guess. Others guesses include Bloomberg's survey of 4.2%; the Atlanta Fed thinks 7.5% sounds about right while the buzz-kills at the New York Fed are gloomily suggesting just 2.6%. Anyone been to New York lately?

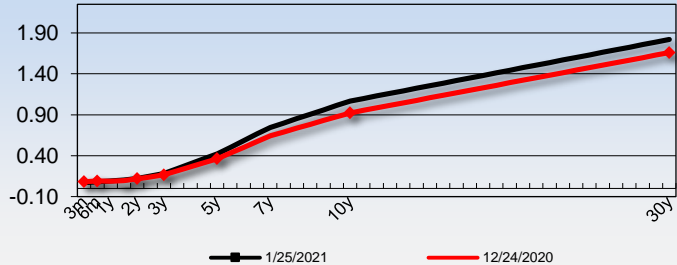
Thursday will also bring news of Initial Jobless Claims for the week ending January 23rd and a total of 880k is expected. The prior week's tally was 900k. Continuing Claims for the week ending January 16th are forecast to show a dip to 5M from 5.05M. Also on that day, the Conference Board's Index of Leading Economic Indicators comes out and it should show a December rise of 0.3% while New Home Sales are expected to have grown by 2.4% last month. That report comes from the Census Bureau. And coming from the Treasury will be \$62B Seven-Year notes. Got to keep feeding the bear.

On Friday, we'll find out from the BEA how that's going for the rest of us when it is expected to report that Personal Income managed a 0.1% rise last month after slipping 1.1% the month before. Personal Spending is forecast to show a 0.4% December decline in a reprise of the prior month.

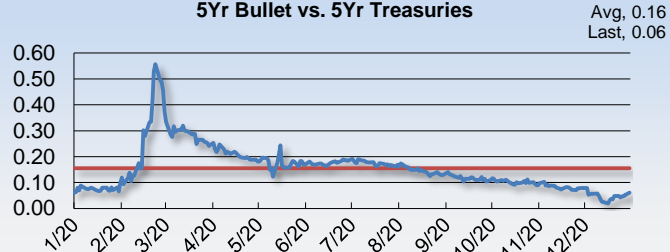
In his post-meeting remarks on Wednesday Chairman Powell is bound to talk about inflation and on Friday, the BEA will talk about it a little bit, too. The Bureau's report is expected to tell us that December's Personal Consumption Expenditures Index rose 0.3% pushing the year-over-year pace to 1.2% from 1.1%. Without food and energy, core PCE maybe rose 0.1% with the year-over-year rate falling to 1.3% from 1.4%. Core PCE is the inflation measurement the Fed wants to see maintain an average of 2% over time and those expressing concern that inflation may soon rise to a level that would cause the Fed to become less accommodative or even restrictive should keep this in mind. They should also keep in mind the recent remarks of Vice-Chairman Richard Clarida who said, "We are not going to lift off until we get inflation at 2% for a year." Richard is known for his directness. Also on Friday, the National Association of Realtors is expected to tell us that Pending Home Sales fell 0.3% last month after falling 2.6% in November. Some may see this as a slow-down in what has been an extremely robust housing market, but others see it as a problem of supply rather than demand.

The University of Michigan will close out the week with its finalized report for January's Index of Consumer Sentiment. The previously reported 79.2 is expected to have remain unchanged. We'll see on Wednesday if Jerome's changed his tune. Have a great week; be careful out there.

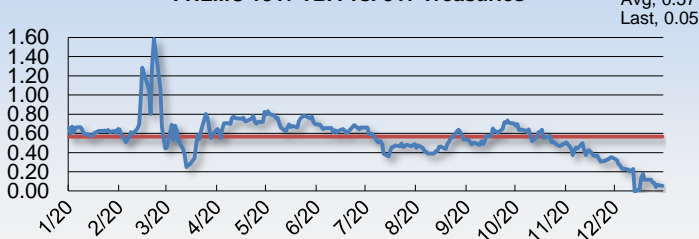
Treasury Yield Curve - Current vs. 1-Month



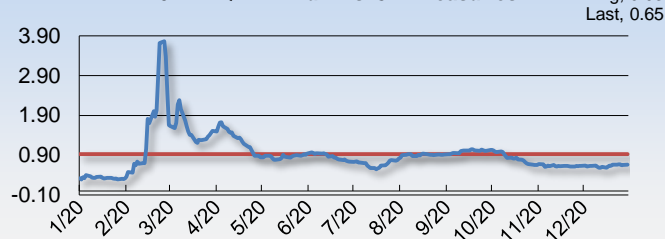
**Agency Spreads
5Yr Bullet vs. 5Yr Treasuries**



**MBS Spreads
FHLMC 15Yr TBA vs. 5Yr Treasuries**



**Municipal Spreads
10Yr BQ AAA Muni vs. 5Yr Treasuries**



Treasury Market -- Historical						Fixed Rate Market											
Maty	Current	1Wk Change	Historical			Maty /AL	N-Call Agency	US Swap	AAA BQ Muni		Tax Muni		Agency Calls - Euro				
			1 Mo	6 Mo	1 Yr				C-Corp ²	S-Corp ³			Mty	3Mo	6mo	1Yr	2Yr
3mo	0.07	(0.01)	0.08	0.11	1.53	2yr	0.16	0.20	0.18	0.19	0.19	2Yr	0.04	0.04	0.04	-	
6mo	0.08	(0.01)	0.09	0.13	1.54	3yr	0.22	0.26	0.22	0.24	0.32	3Yr	0.11	0.11	0.10	0.10	
1yr	0.09	(0.01)	0.09	0.14	1.53	5yr	0.47	0.52	0.35	0.37	0.58	5Yr	0.43	0.43	0.41	0.35	
2yr	0.12	(0.01)	0.12	0.15	1.50	7yr	0.73	0.79	0.64	0.69	0.96	7Yr	0.76	0.77	0.76	0.70	
3yr	0.18	(0.02)	0.17	0.17	1.50	10yr	1.24	1.09	1.08	1.15	1.47	10Yr	1.12	1.18	1.17	1.10	
5yr	0.42	(0.03)	0.36	0.28	1.50	15yr	1.75	1.37	1.47	1.56	1.98	Cpn	February TBA MBS				
7yr	0.75	(0.03)	0.65	0.44	1.60	20yr	2.26	1.50	1.75	1.86	2.54		15Yr -Yld/AL	30Yr -Yld/AL			
10yr	1.07	(0.02)	0.93	0.59	1.68	25yr	2.77	1.55	1.88	2.00	2.59		2.00	0.77	3.8y	1.26	
30yr	1.82	(0.01)	1.66	1.23	2.13	30yr		1.58	2.02	2.15	2.64		2.50	0.73	2.8y		
													3.00	0.93	2.8y	0.73	2.3y
												3.50	0.66	2.3y	0.44	2.1y	
												4.00			0.75	2.3y	
												4.50			0.77	2.4y	
* Interpolated																	
Key Market Indices																	
		1Wk	Historical														

* Interpolated

Key Market Indices

Index	Current	1Wk Change	Historical		
			1 Mo	6 Mo	1 Yr
Fed Funds	0.25	--	0.25	0.25	1.75
Primary Discount	0.25	--	0.25	0.25	2.25
2ndary Discount	0.75	--	0.75	0.75	2.75
Prime Rate	3.25	--	3.25	3.25	4.75
Sec. O.N. Finance	0.05	(0.03)	0.07	0.10	--
1 Month LIBOR	0.12	(0.00)	0.14	0.18	1.66
3 Month LIBOR	0.22	(0.01)	0.24	0.26	1.80
6 Month LIBOR	0.24	(0.01)	0.26	0.33	1.82
1 Year LIBOR	0.31	(0.01)	0.34	0.46	1.92
6 Month CD	0.18	(0.01)	0.24	0.37	1.78
1 Year CMT	0.10	--	0.09	0.14	1.55
REPO O/N	0.09	(0.01)	0.10	0.14	1.54
REPO 1Wk	0.09	--	0.10	0.08	1.58
CoF Federal	0.925	--	0.958	1.158	1.955
11th D. CoF (Nov)	0.466	--	0.503	0.755	1.035

FHLB Fixed Advance Rates

Maturity	Chicago	Boston	Topeka
3mo	0.25	0.37	0.29
6mo	0.25	0.35	0.30
1yr	0.29	0.30	0.32
2yr	0.32	0.49	0.35
3yr	0.40	0.59	0.44
4yr	0.52	0.72	0.56
5yr	0.66	0.87	0.70
7yr	0.99	1.23	1.04
10yr	1.38	1.65	1.44
5yr Am	0.47		0.56
10yr Am	0.96		1.05

Fed Fund Futures

Maturity	Rate
Jan-21	0.090
Feb-21	0.075
Mar-21	0.075
Apr-21	0.070
May-21	0.070
Jun-21	0.070
Jul-21	0.065
Aug-21	0.065
Sep-21	0.065
Oct-21	0.065
Nov-21	0.065

January 25, 2021

Weekly Economic Calendar						
This Week & Next						
Date	Release	Per.	Est.	Actual	Prior	Revised
1/25	Chicago Fed Nat Activity Index	Dec	10.0%	52.0%	27.0%	31.0%
1/25	Dallas Fed Manf. Activity	Jan	12.0	--	9.7	--
1/26	S&P CoreLogic CS 20-City YoY NSA	Nov	8.70%	--	7.95%	--
1/26	S&P CoreLogic CS 20-City MoM SA	Nov	1.00%	--	1.61%	--
1/26	S&P CoreLogic CS US HPI YoY NSA	Nov	9.00%	--	8.41%	--
1/26	Conf. Board Expectations	Jan	--	--	87.5	--
1/26	Conf. Board Consumer Confidence	Jan	89.0	--	88.6	--
1/26	Conf. Board Present Situation	Jan	--	--	90.3	--
1/26	Richmond Fed Manufact. Index	Jan	19.0	--	19.0	--
1/27	MBA Mortgage Applications	1/22	--	--	-1.9%	--
1/27	Durables Ex Transportation	Dec P	0.5%	--	0.4%	--
1/27	Cap Goods Orders Nondef Ex Air	Dec P	0.5%	--	0.5%	--
1/27	Cap Goods Ship Nondef Ex Air	Dec P	0.6%	--	0.5%	--
1/27	FOMC Rate Decision (Upper Bound)	1/27	0.25%	--	0.25%	--
1/27	FOMC Rate Decision (Lower Bound)	1/27	0.00%	--	0.00%	--
1/27	Interest Rate on Excess Reserves	1/28	0.10%	--	0.10%	--
1/28	GDP Annualized QoQ	4Q A	4.2%	--	33.4%	--
1/28	Initial Jobless Claims	1/23	878k	--	900k	--
1/28	Continuing Claims	1/16	5100k	--	5054k	--
1/28	GDP Price Index	4Q A	2.2%	--	3.5%	--
1/28	Core PCE QoQ	4Q A	1.2%	--	3.4%	--
1/28	New Home Sales	Dec	866k	--	841k	--
1/29	Personal Income	Dec	0.1%	--	-1.1%	--
1/29	Employment Cost Index	4Q	0.5%	--	0.5%	--
1/29	PCE Deflator YoY	Dec	1.2%	--	1.1%	--
1/29	PCE Core Deflator YoY	Dec	1.3%	--	1.4%	--
1/29	MNI Chicago PMI	Jan	58.3	--	59.5	58.7
1/29	Pending Home Sales NSA YoY	Dec	--	--	16.0%	--
2/1	ISM Employment	Jan	--	--	51.5	--
2/1	ISM New Orders	Jan	--	--	67.9	--
2/1	ISM Manufacturing	Jan	60.0	--	60.7	--
2/1	ISM Prices Paid	Jan	--	--	77.6	--
2/3	ADP Employment Change	Jan	100k	--	-123k	--
2/3	Markit US Composite PMI	Jan F	--	--	58.0	--
2/3	ISM Services Index	Jan	57.0	--	57.2	--
2/4	Challenger Job Cuts YoY	Jan	--	--	134.5%	--
2/4	Unit Labor Costs	4Q P	4.0%	--	-6.6%	--
2/4	Nonfarm Productivity	4Q P	-2.7%	--	4.6%	--
2/5	Change in Nonfarm Payrolls	Jan	100k	--	-140k	--
2/5	Two-Month Payroll Net Revision	Jan	--	--	135k	--
2/5	Change in Private Payrolls	Jan	100k	--	-95k	--
2/5	Change in Manufact. Payrolls	Jan	32k	--	38k	--
2/5	Unemployment Rate	Jan	6.7%	--	6.7%	--
2/5	Average Hourly Earnings YoY	Jan	5.0%	--	5.1%	--
2/5	Average Weekly Hours All Employees	Jan	34.7	--	34.7	--
2/5	Labor Force Participation Rate	Jan	--	--	61.5%	--
2/5	Underemployment Rate	Jan	--	--	11.7%	--

MBS Prepayments ⁴						
3-Month CPR						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	13.4	24.8	27.3	29.5	30.4	16.0
FH/FN 15y	16.9	35.0	43.5	47.9	22.3	22.1
GN 15y	25.1	20.4	19.8	20.2	17.8	19.0
FH/FN 20y	53.5	34.1	35.1	33.7	32.2	25.4
FH/FN 30y	8.2	47.0	58.5	58.7	59.5	53.3
GN 30y	13.4	20.3	42.0	51.6	41.9	31.3
CPR Projections						
Type	2.0	2.5	3.0	3.5	4.0	4.5
FN 10y	17.8	21.6	19.4	23.1	18.5	15.8
FH/FN 15y	16.8	23.4	24.6	35.3	19.3	22.0
GN 15y	25.6	16.0	15.9	14.6	13.5	13.1
FH/FN 20y	15.0	20.8	22.4	30.4	20.2	17.8
FH/FN 30y	14.4	22.2	37.9	38.4	36.5	32.9
GN 30y	11.9	20.6	28.5	25.1	29.7	22.7

Other Markets					
Index	Current	1Wk Chng	Historical		
			1 Mo	6 Mo	1 Yr
Currencies					
Japanese Yen	103.78	0.09	103.43	105.37	108.90
Euro	1.22	0.01	1.22	1.18	1.10
Dollar Index	90.33	(0.44)	90.32	94.44	97.85
Major Stock Indices					
Dow Jones	30,997	5	30,200	26,470	28,990
S&P 500	3,841.5	45.9	3,703.1	3,215.6	3,295.5
NASDAQ	13,543.1	430	12,804.7	10,363.2	9,314.9
Commodities					
Gold	1,863.5	33.6	1,879.9	1,897.5	1,571.9
Crude Oil	52.12	(0.24)	48.23	41.29	54.19
Natural Gas	2.53	(0.21)	2.52	1.81	1.89
Wheat	633.8	-41.8	627.0	539.5	573.5
Corn	499.3	-32.3	451.0	326.3	387.3

Notes	
1	Call Agy = Maturity at left w/ a 1-Year Call at Par
2	Muni TEY (21% Fed, 0.75% CoF)
3	S-Corp TEY Muni (29.6%, no TEFERA)
4	MBS Prepayments are provided by Bloomberg

INTENDED FOR INSTITUTIONAL INVESTORS ONLY. The data provided in these reports is for informational purposes only and is intended solely for your private use. Information herein is believed to be reliable but The Baker Group LP does not guarantee its completeness or accuracy. Opinions constitute our judgment and are subject to change without notice. Past performance is not indicative of future results. The investments and strategies discussed here may not be suitable for all investors; if you have any

Source for the aforementioned indices, rates, descriptions, & economic indicators: Bloomberg, L.P. This report was printed as of: 01/25/2021 8:26AM